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C O N F I D E N T I A L SEOUL 003592

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TAGS: [PREL](#) [PGOV](#) [KS](#) [KN](#)
SUBJECT: A/S HILL'S SEOUL MEETINGS: ROKG NOT PLANNING
SIGNIFICANT STEPS TOWARD DPRK TO IMPLEMENT UNSCR 1718

Classified By: AMB. Alexander Vershbow. Reasons 1.4 (b/d).

SUMMARY

11. (C) Assistant Secretary Hill's October 17-18 meetings in Seoul revealed that, while Seoul said it was prepared to implement UNSCR 1718, the ROKG had decided that the resolution did not specifically target North-South engagement projects, such as the Kaesong Industrial Complex and Mount Kumgang tourism. South Korean interlocutors also showed reluctance to participate fully in the Proliferation Security Initiative (PSI). Asked what the ROKG was doing in response to the October 9 test, South Korean officials harked back to the USD 350 million in annual rice-and-fertilizer aid that was suspended after the July missile launches, but cited only minimal additional steps planned now. A/S Hill pressed the South Koreans on the need to send a strong political message by taking steps beyond those adopted after the missile tests in July. He requested the ROKG to come to an early agreement on PSI and seriously consider restricting Kumgang tourism, which provided no reform-oriented benefits, unlike the Kaesong Industrial Complex. END SUMMARY

ACTING FOREIGN MINISTER: ROKG WELCOMES UNSCR 1718

12. (C) Acting Foreign Minister Yu Myung-hwan told A/S Hill during an October 17 meeting that the ROKG welcomed UNSCR 1718 and would implement it faithfully. He reviewed steps that the ROKG had already taken, saying that the suspension of bilateral economic assistance (rice and fertilizer) since the July missile launches was most significant, since the program had provided the DPRK USD 1.4 billion worth of assistance during the last three years, or about USD 350 million a year.

13. (C) On major engagement projects, Yu said the DPRK government received about USD 600,000 a year from the Kaesong Industrial Complex (KIC) but a more significant USD 12 million per year from the Mt. Kumgang tourism area. A/S Hill said that, speaking personally, he saw the merit of KIC as a long-term investment in human capital and economic reform but saw less benefit in the Mt. Kumgang project, which seemed to mainly supply cash to the DPRK regime. Yu replied that he had made similar comments to the National Assembly and the ROKG was reviewing the issues. The problem was that Hyundai

Asan had invested a significant amount in the project and would go bankrupt if it were stopped. A/S Hill countered that the ROKG needed to be careful not to be seen as doing nothing in the face of the DPRK's nuclear test.

14. (C) Turning to the President Roh Moo-hyun's October 13 meeting with Chinese President Hu Jintao, Yu said that Presidents Roh and Hu agreed that neither country would recognize the DPRK as a nuclear power, and they also agreed on the continued usefulness of the Six-Party Talks, with Hu emphasizing the need to keep the door open for the DPRK to return to the talks.

15. (C) A/S Hill agreed that while it was important for the DPRK to return to the talks, the North Koreans must understand that there would be consequences for their actions. A/S Hill suggested that the ROKG could help ease the heavy skepticism in Washington about the possibility of achieving a diplomatic solution by focusing on meaningful enforcement of sanctions against the DPRK. The ROKG should not put itself in the position of being seen as doing nothing in response to the DPRK test, he said.

SIX-PARTY TALKS REP.: BEYOND SANCTIONS, DIPLOMACY NEEDED

16. (C) Special Representative for Korean Peninsula Peace and Security Affairs and the ROKG's representative to the Six Party Talks Chun Yung-woo began an October 17 dinner with A/S Hill by noting what he saw as two benefits of UNSCR 1718: that it made nuclear dismantlement a legal obligation for the DPRK under the UN Charter's Chapter VII, and that it retained flexibility to take further actions as needed.

17. (C) Chun also analyzed the financial impact of UNSCR 1718 and additional sanctions coming into effect, saying they would have a serious impact on the DPRK. He estimated that the suspended ROKG rice-and-fertilizer aid meant that the DPRK was foregoing USD 270 million worth of commodities this year; that Japan's sanctions would cost the DPRK USD 120 million in cash because of foregone trade; that UNSCR 1718 sanctions would cost the DPRK about USD 100 million in foregone exports of arms and missiles (based on an ROKG estimate that the DPRK exported USD 110 million worth of arms in 2005); and that Chinese sanctions, to be determined, would have a serious psychological impact. The net financial effect (which totals to USD 490 million) was equivalent to 10-20 percent of the DPRK's total annual exports, and thus a serious bite.

18. (C) Even so, Chun continued, we should not underestimate the DPRK's willingness to sustain this type of damage. Even if the DPRK had to continuously tighten its belt, the regime would remain determined to keep its nuclear weapons, which it regarded as a means of garnering more respectful treatment from the USG. Hence, the international community needed to keep working toward a diplomatic solution. Chun said there was resentment in ROKG circles that the USG had not seen fit to go forward with a U.S.-ROK proposal to bring the DPRK back to the table, after such an option had been discussed in the weeks following the September 14 summit. He said that a sincere U.S.-ROK approach to the DPRK, even if not successful in inducing the DPRK's return to negotiations, would better prepare the ROK public for a shift to a tough stance toward the North.

19. (C) On PSI, Chun said that the ROKG agreed with the substance of the initiative, but noted that it already had the right under its maritime agreement with the DPRK to search any ships. However, National Assembly members, especially much of the governing Uri party, had strong views against PSI, seeing it as a triggering mechanism for armed conflict. Chun agreed with the Ambassador's suggestion that the ROKG should begin to demystify PSI so that the Korean public understood that it was based on legal means and voluntary participation, and thus not a recipe for war. Chun

summed up by saying that Washington wanted the ROK to join PSI to send a political signal (since, in operational terms, the ROKG already had the needed authority to search DPRK ships), but that the ROKG had trouble signing on for domestic political reasons.

¶10. (C) Noting the Secretary's planned October 19 visit, A/S Hill and the Ambassador said that the ROKG should not be seen as doing nothing new in the face of the DPRK's nuclear test. Chun said that the ROKG may have used up too much of its leverage when it suspended humanitarian aid following the missile launches. He asked that stress be placed on the chance for diplomacy. Chun also asked that for the three activities now widely discussed in South Korea -- PSI, KIC and Kumgang -- the Secretary should be mindful of domestic sensitivities and answer press queries by stating that she understood these were being reviewed by the ROKG.

MINISTER OF UNIFICATION: LEAVE KUMGANG AND KAESONG ALONE

¶11. (C) In an October 18 meeting, Minister of Unification Lee Jong-seok struck a defensive tone about the flagship engagement projects, KIC and Kumgang, repeating explanations he gave the Ambassador on October 16 (reftel), that these were private projects that ROKG could not touch; doing so would bring costs (USD 1 billion compensation to Hyundai Asan for losses at Kumgang), raise tensions, and adversely affect the ROK economy. Lee complained to A/S Hill for commenting to the press that Kumgang appeared to transfer funds to the DPRK government without contributing to economic reform in the North.

¶12. (C) Asked what the ROKG response to the DPRK nuclear test should be, Lee cited the suspension of rice-and-fertilizer aid announced in July, adding that the ROKG had also canceled an agreement to exchange DPRK minerals for ROK light industry materials, valued at USD 80 million per year. Lee said the ROKG would watch the UNSCR 1718 Sanctions Committee closely

and implement further measures if needed. Lee also said that the ROKG would no longer provide the approximately USD 3 million per year it has been spending in sponsoring students' and teachers' trips to Mt. Kumgang.

¶13. (C) A/S Hill asked Minister Lee for his views on whether the regime appeared to be under great stress. Lee noted the difficulty of tracking changes in the DPRK, but said that the range of decisionmakers working closely with Kim Jong-il had become very curtailed, increasing the possibility that KJI could go "beyond rationality" in his decisions. In general, Lee said, instability in the DPRK was increasing -- which was why the ROKG did not want to stoke tensions by suspending engagement projects at this time, or by signing up to PSI.

¶14. (C) Lee said further that his impression was that elites in the DPRK thought they had done a good job carrying out the nuclear test. Their reasoning, Lee said, was that muddling through the standoff with the United States was not enough. Demonstrating a nuclear weapon was a life or death matter intended to ensure respect from the U.S. Lee said that a continuing atmosphere of stress would prompt the DPRK to perform a second nuclear test. He asked A/S Hill to convey to the Secretary that she emphasize not only sanctions but also specific steps toward implementing a diplomatic solution.

VERSHBOW